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ABSTRACT

During the last decade, the manufacture of commodities has become increasingly simple, and as a result, has increasingly been exported from the United States to low-wage regions of the world. On the other hand, the U.S. economy has become increasingly service oriented, with service-sector jobs growing rapidly while manufacturing jobs decline. In the Columbus, Ohio, Metropolitan Statistical Area (MSA), for example, the proportion of the work force employed in manufacturing dropped from about 29 percent in 1972 to about 19 percent in 1983. At the same time, general service increased by 6 percent, while the relative importance of finance, insurance, and real estate (collectively called FIRE), and state and local government also increased. Employment in FIRE has increased by 14,573 jobs during those 11 years, while transportation and utilities have added 1,789 new jobs (although actually experiencing a slow decrease in share of total employment). The shift to services does raise some serious questions about the long-term viability of a service-dominated economy. The service sector has traditionally been less productive and less high-paying than other parts of the economy. There are indications, however, that the service sector will see substantial improvements in productivity because of increased investment in technology, and will also boost wages. To meet the economic challenges of the future, it is necessary for the individual to maintain flexibility, or the ability to learn new skills. The primary responsibility of educators is providing access not only to new skills, but also to the tools of flexibility. Training cannot stop with high school or college; it must be an ongoing process, part of the cycle of human resources. (KC)

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Training in the '80's: An Economic Perspective

by Carl Klein, Research Manager,
Division of Economic Development

As a representative of the City of Columbus and the Division of Economic Development, I should mention some of the new business development and business retention and expansion activities of the Division. The Economic Development effort includes below-market rate interest loans for expanding business, business assistance programs for new and existing firms, and a marketing program to attract new firms to Columbus. These activities are coordinated with private sector agencies, such as the Greater Columbus Chamber of Commerce, the local utility companies, and a number of other public and private agencies.

This coordinated City effort shares many of the goals and challenges of Omicron Tau Theta. Both are directed toward improving the quality of economic life available to the citizens of Columbus and Central Ohio, and both will have to cope with some dramatic changes that will dominate our economic future.

Omicron stands for the cycle of human resources, and that cycle is going to become increasingly important in our current economy. Our ability to compete internationally, our ability to exploit new technologies, and our ability to deal with the shift in the very nature of our domestic economy, will all be influenced by the quality of our human resources.

More importantly, since rapid change seems to have become a commonplace occurrence in our lives, we will need to 'shorten' our definition of the human resource cycle. We must recognize the increasing need for a continuing improvement in each individual's work skills throughout that person's productive life.

One reason for this increased pressure on our human resources is the competitive pressure from the rest of the world. The international economy has become a reality, and has extended far beyond the traditional foreign competition offered by Japanese and German automakers.

The heart of this competition is the increasing numbers of goods that are commodities -- things that are easy to produce with relatively unskilled labor. The more standardized a product becomes, the easier it is to produce it anywhere in the world, typically with lower wage costs.

However, the international market is evolving beyond the production of commodities. Both Japan and Western Europe are now undergoing their own industrial transitions, and other nations are now becoming the low labor-cost commodity producing centers.

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Japanese wages are now close to 90% of American averages, and some of the simpler production processes are being farmed out. Datsun produces some of its auto parts in China, and the Japanese have begun to think that the South Koreans work tc hard. In fact, the South Koreans are pushing the Japanese dominance in several basic industries.

The result is that we need to face the international challenge from the lower-cost production of commodities, as well as the more sophisticated products coming from economies that are paralleling our own evolution.

New technologies are frequently mentioned as the solution to such challenges, but it has become clear that high-tech firms, in and of themselves, will not provide the answer. They can not provide enough employment opportunities, and they also pose a new threat -- the threat of a division in the labor force between high-tech, high skill jobs and high-tech, low skill jobs.

Many of the assembly jobs in plants that manufacture high technology components have low skill requirements. Since the human resources involved in production are minimal, these jobs are vulnerable to foreign competition. As an example, Atari moved 1,600 jobs from Silicon valley to the Pacific Basin. The job skills involved were minimal, and the jobs themselves became commodities.

New technologies will become critical elements of the American economy, but primarily as they are incorporated in the entire production cycle. This incorporation will place a higher demand on the learning skills of the work force, but it is precisely through improved skills that the work force will maintain its competitive edge.

This adaptation to new skills must take place in the face of some major shifts in the national and regional patterns of employment. The first shift, and the most dramatic, is the loss of manufacturing jobs in the traditional manufacturing heartland of the nation.

According to the U.S. Bureau of Labor Statistics, the Northeast and North Central regions contained 67% of manufacturing employment in 1960, but only 54.7% in 1981. In absolute numbers, the manufacturing heartland lost 192,000 manufacturing jobs while the South and the West gained 3,600,000. This shift of employment to the South and the West has been the dominant trend of the national economy for the last two decades and has had a fundamental impact on the balance of the national economy.

At the same time that manufacturing employment is relocating, the second major shift complicates the labor market even more. The national economy is becoming increasingly oriented toward service employment.

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In 1982, the production of services generated 67% of the Gross National Product and employed sever out of every ten Americans. Between 1978 and 1983, national employment in the service-producing sector increased by 8.5%. Employment in the goods-producing sector decreased 7.2% during the same time period.

The shift in the relative importance of the major employment divisions, however, is reflected in a basic alteration in the mix of economic components in the Columbus Metropolitan Statistical Area (MSA) since 1972. The Columbus MSA is composed of Delaware, Franklin, Fairfield, Licking, Madison, Pickaway and Union Counties.

The most striking shift occurs in manufacturing, which employed about 29% of the workforce in 1972, but only about 19.5% in 1983. General services increased its share by six percentage points, while the relative importance of FIRE and state and local government also increased.

This decline in manufacturing employment, and to a lesser degree, the decline in construction employment, has led to an increased reliance on the service-oriented divisions to provide employment in the Columbus MSA. A significant number of jobs were created in general services, wholesale and retail trade, FIRE, and state and local government between 1972 and 1983. The most impressive growth has been registered in wholesale and retail trade and general services with the 70,139 new jobs created in the Columbus economy since 1972. There has been a significant increase in employment in state and local government, although the available data is somewhat misleading due to changes in the coverage provided by the Ohio Unemployment Compensation Law.

Employment in FIRE has increased by 14,573 jobs between 1972 and 1983, with this division assuming an increased share of the total employment. Transportation and utilities added 1,789 new jobs since 1972, while actually experiencing a slow, but steady decrease in its share of total employment.

According to projections prepared by the U.S. Bureau of Labor Statistics, the level of national employment will exceed 127 million jobs by 1995, or about 22 million jobs more than currently exist. One-fourth of these new jobs will be in the goods-producing sector of the economy, with the service-producing sector creating three-fourths of these new employment opportunities. One job out of every six new jobs created will be in manufacturing, while the fastest growth will occur in general services. One out of every three new jobs over the next ten years will be created in general services.

The shift to services does raise some serious questions about the long term viability of a service dominated economy. The questions are based in some traditional assumptions about the difference between goods-producing sectors, such as manufacturing and construction, and service-producing sectors, such as transpor-

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tation, general services, retail and wholesale trade, and finance, insurance and real estate.

One such assumption is that the service sector is a secondary employment market, dominated by low wages and low productivity. Part of that assumption is still true, as witnessed by statistics on wage rates in the Columbus economy.

The wage rates for the service-producing sector are uniformly lower than the average wage in Franklin County, with the exception of the transportation and utilities division. Although wages for all jobs have been increasing since 1978, wages in construction, manufacturing, FIRE, general services and state and local government have been increasing faster than the Columbus MSA average of 137.8%. However, the fastest growing divisions of the service-producing sector are the lowest paying.

There are indications, however, that the service-producing sector will see substantial improvements in productivity. Such improvements would allow for increases in wages, without dislocating the competitive position of the service-producing sector.

Productivity improvements will result from substantial increases in capital investment in new technologies in the service-producing sector. New technology investment by service producers soared to nearly $47 billion in 1982, a 145% increase over the 1975 level of $19.1 billion. During the same period, service employment rose 25%, from 46.1 million to 57.6 million. The result is a 96.6% surge in new technological investment per service worker -- from $415 in 1975 to $816 in 1982.

A second assumption is that service activities can not bring wealth into a region, such as Central Ohio, in the same way that a manufacturing plant would. Unlike traditional manufacturing exports, however, the point of consumption has little bearing on the export of services. A service is thought of as being exported whenever it is purchased by a consumer from outside the MSA. The sole criteria for exporting a service, is that the money to purchase the service comes from outside the region. In this way, a service can bring outside revenue into the region in a manner similar to the export of goods.

Some Columbus area service activities do fill the export role. Much of the revenue generated by wholesale trade and the division of finance, insurance and real estate comes from outside of the Columbus MSA. State and federal government employment can also have an export effect, to the extent that payrolls counterbalance revenue taken from the region through taxes. In the general services division, employment is increasing in several areas where the service rendered can be exported. In these sectors, which include hotels and other lodging places, business, and health services, the service rendered may be purchased by an individual or organization residing outside the MSA.

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Nevertheless, there is still a lingering sense that some manufacturing activity is essential for the continued economic health of a region. The primary reason for this is that manufacturing activities have a well documented multiplier effect. Among other factors, manufacturing employees have more disposable and taxable income, spare equipment parts must be bought, and a wide range of support services are needed.

In spite of the major shift of employment to the Sunbelt, there is some indication that our manufacturing base can be revived. As David Birch argued in a recent issue of Economic Development Commentary, there is evidence that the Northeast is already recycling on the crest of new and innovative industries that may provide expanded job opportunity. "During the past two years of rapid economic expansion, Massachusetts created almost twice as many jobs as Texas, starting from a base that is two-and-one-half times smaller. . . .The transition is an exciting one because it relies primarily on human resources, not physical ones. Human resources can be developed."

The heart of the challenge in the cycle of human resources, whether those resources are employed in services, software design or specialty steel minimills, is in the commitment to the continuing development of the labor force. We need to maintain and expand a non-commodity, highly skilled manufacturing workforce. We also need to maintain and/or create a highly productive service workforce.

The primary responsibility for the individual is maintaining flexibility, or the ability to learn new skills. The primary responsibility for the curricula is providing access not only to new skills, but also to the tools of flexibility. Most fundamentally, we need to recognize that training can not stop at the high school or college level. It must be an on-going process, part of the cycle of human resources.

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